

Message Text

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ORIGIN STR-05

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TO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L STATE 237626

USMTN FOR MCDONALD, CULBERT

E.O. 11652: GDS

TAGS: ETRD, MTN

SUBJECT:

FOR AMBASSADOR MCDONALD AND CULBERT FROM WOLFF

1. APPRECIATE STR CHANNEL GENEVA 8368. IN ORDER TO HAVE
OTHER AGENCIES AND HILL FOLLOW PROGRESS OF NEGOTIATIONS,
SUGGEST BULK OF FURTHER COMMUNICATIONS BE OPEN CHANNEL.
ALSO BELIEVE AMBASSADOR HINTON WOULD BENEFIT FROM CABLES

LIKE REFTEL. SUGGEST WE REPEAT THOSE CABLES EXDIS FOR
HINTON, WASHINGTON AGENCIES.

2. FOLLOWING IS INITIAL PERSONAL REACTION TO BE FOLLOWED
BY FURTHER COMMUNICATION AFTER INTERAGENCY CONSULTATIONS
HERE.

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JOINT OBJECTIVES;

3. WORKING HYPOTHESIS IS SWISS FORMULA BASED (PLUS OR
MINUS 5), WITH HARMONIZATION AND DEPTH OF CUT THIS
IMPLIES. AS YOU STATE, CONDITIONALITY IS NOT (REPEAT NOT)
AN OPEN ISSUE, AND WILL BE PART OF THE WORKING HYPOTHESIS.

4. ONE OF THE KEY POINTS AT ISSUE IS THE TIMING WHEN
ELEMENTS OF TARIFF PLAN BECOME SPECIFIC, INCLUDING THEIR
APPLICATION AND IMPLEMENTATION. WHEN THESE POINTS RE

MADE CONCRETE DEPENDS IN PART ON INTRA-EC POLITICS AS WELL AS ON U.S.-EC TACTICS. I ASSUME, FOR EXAMPLE, THAT IT WOULD BE ONLY IMPLICIT AND NOT DECIDED BY 113 COMMITTEE THIS WEEK WHERE EC WOULD FALL WITHIN SWISS BAND. THIS DECISION WOULD HAVE TO BE MADE AND NOTIFIED, HOWEVER,

BEFORE OFFERS ARE TABLED ON JANUARY 15 SO WE CAN EACH JUDGE WHERE WE MUST COME OUT TO HAVE RELATIVE BALANCE IN OFFERS.

5. ONE OF REASONS FOR UNDESIRABILITY OF EC DECIDING NOW ON 39 OR 40 CUT IS THAT IF WORST HAPPENED ON CONDITIONALITY ISSUE, AND MOST NEGATIVE TWO TRANCHE APPROACH WERE ADOPTED, CUT FOR EC MIGHT BE PURSUED ALONG LINES OF 34 PLUS 10. (I AM NOT SUGGESTING THAT THIS IS ACCEPTABLE, BUT THAT SINCE THERE IS A PRACTICAL TRADE OFF BETWEEN CONDITIONALITY AND DEPTH OF CUT, DEPTH OF CUT ISSUE MUST BE KEPT OPEN FOR THE PRESENT WITHIN LIMITS OF BAND).

6. I AGREE WITH YOU THAT U.S. DOMESTIC ACCEPTABILITY OF U.S. APPLYING FORMULA MORE THAN ABOUT 2 TO 4 HIGHER IN AVERAGE DEPTH OF CUT THAN THAT OF EC IS ALL THAT CAN BE EXPECTED, ON BASIS OF COMPENSATING FOR U.S. EXCEPTIONS. CONFIDENTIAL

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BAND CONCEPT THEREFORE HAS POLITICAL LIMITS ON SPREAD BETWEEN PARTICIPANTS.

7. I AM NOT (REPEAT NOT) PREPARED TO CONCEDE AT THIS TIME DOWNWARD DRIFT BELOW SWISS BAND. HOWEVER, WE WILL SEE WHERE U.S. EXCEPTIONS EXERCISE LEAVES US IN TERMS OF ROOM FOR MANEUVER. (INDICATIONS FROM ONE STRANALYST SUGGESTS THAT IF USITC RANKINGS OF HIGHEST SENSITIVITY ITEMS WERE USED AS SOLE BASIS FOR EXCEPTIONS, U.S. SWISS FORMULA CUT ON NON-EXCEPTED ITEMS WOULD HAVE TO BE WELL ABOVE TOP O BAND. (HE CITED AN AVERAGE U.S. DEPTH OF CUT OF 69.4). THIS IMPLIES URGENT NEED FOR FURTHER ANALYSIS OF NO-NET-EXCEPTIONS APPROACH, EVEN THOUGH GREATER THAN FORMULA CUTS MIGHT BE AVAILABLE TO MAKE APPROACH MANAGABLE. THIS IS THE REASON FOR MY URGING GREAT CAUTION IN CRAWLING OUT TOO FAR ON NO NET EXCEPTIONS LIMB, HOWEVER APPEALING CONCEPT MAY BE FOR REASONS OF TRADE LIBERALIZATION.

PRINCIPLE OF CONDITIONALITY:

8. AGREE SOME CONDITIONALITY UNAVOIDABLE IF WE ARE TO GET DEPTH OF CUT WE REQUIRE FROM EC.

9. QUESTION: WHEN MUST WE HAVE AGREEMENT ON CONTENTS OF STAGING CLAUSE? HAFERKAMP'S SEPTEMBER 30 LETTER SAYS "WE MUST NOW BE CLEAR . . . ABOUT COMPOSITION OF PACKAGE OF

WHICH CONDITIONALITY AS DESCRIBED IS AN ESSENTIAL PART." HINTON REPORTS (BRUSSELS 13036) THAT DENMAN ENVISAGES WORKING OUT DETAILS ON CONDITIONS NOW. WE SUGGESTED "END OF MTN" (E.G., JUNE, 1978). DO YOU FEEL THAT A MIDDLE GROUND IS ACHIEVABLE (OR DESIRABLE) OF (L1) ACKNOWLEDGING PRINCIPLE OF CONDITIONALITY IN OCTOBER 10 TARIFF PLAN WITHOUT ELABORATION, (2) AGREEING TO CONCEPTUAL CONTENTS OF STAGING CLAUSE BY JANUARY 15, 1978, AND (3) AGREEING TO TEXT OF STAGING CLAUSE AS PART OF CONFIDENTIAL

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FINAL PACKAGE IN JUNE, 1978?

10. POSSIBLE APPROACHES TO LIMITING DAMAGE OF CONDITIONALITY:

A. PRESUMPTION THAT STAGING CONTINUES.

IT IS ESSENTIAL THAT STAGING BE AUTOMATIC UNLESS INTERRUPTED BY A POSITIVE DECISION. IT WOULD BE UNACCEPTABLE TO HAVE STAGING PAUSE TO AWAIT A POSITIVE DECISION TO CONTINUE. A DECISION TO CONTINUE CUTS, WHETHER BY TARIFF GROUP OR EC MEMBER STATES, MIGHT BE IMPOSSIBLE TO OBTAIN. LIKEWISE, A CONSENSUS TO INTERRUPT STAGING MIGHT BE EQUALLY DIFFICULT TO OBTAIN, THUS FAVORING COMPLETION OF CUTS.

B. STAGING WOULD HAVE LITTLE OR NO HARMONIZATION ELEMENT IN EARLY YEARS.

FOR EXAMPLE, FIRST FIVE ANNUAL STAGES (JUNE 1, 1979

THROUGH JANUARY 1, 1983) WOULD EACH CONSIST OF THREE PERCENTAGE POINTS OR ONE FIFTH OF TOTAL CUT, WHICHEVER IS LESS. TARIFF PEAKS WOULD SUFFER GREATEST EROSION IN LAST STAGES. THEREFORE THERE WOULD BE AN INCENTIVE FOR EC TO DESIRE CONTINUATION OF STAGING TO ACHIEVE THE HARMONIZATION THAT SWISS FORMULA IMPLIES. CONVERSELY, MAXIMUM TRADE LIBERALIZING EFFECTS OF BROAD TARIFF CUT WOULD COME IN EARLY YEARS, WHEN IT IS NEEDED FOR ANTI-INFLATIONARY, ANTI-RECESSIONARY MEDICINE.

C. MAXIMIZE EFFECTS OF CONDITION BEING MET.

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(1) THERE ARE DISTINCT AND SERIOUS COSTS AND BENEFITS TO LIMITING THE IMPACT OF MEETING THE CONDITIONALITY CLAUSE. HAVING CERTAINTY CUTS TWO WAYS: IT LIMITS THE POSSIBLE LOSS IN TARIFF REDUCTIONS AND IT

INCREASES THE RISK THAT A DECISION WILL BE TAKEN TO INTERRUPT STAGING.

(2) IF A CONDITION APPLIES ONLY TO A SECOND SMALL TRANCHE, AS YOU NOTE, THAT 2ND SERIES OF ANNUAL CUTS MAY BE ILLUSORY. IT WOULD BE A RELATIVELY EASY MATTER FOR COUNTRIES TO DECIDE THAT A 25-30 CUT HAVING TAKEN PLACE, THAT WAS ENOUGH. WE WOULD HAVE THE CERTAINTY OF THE FIRST TRANCHE BEING IMPLEMENTED AT THE COST OF NEARER CERTAINTY THAT THERE WOULD ONLY BE ONE TRANCHE.

(3) THE MORE UNCERTAINTY THERE IS, THE LESS LIKELY THAT THE CONDITIONAL RIGHT WILL BE INVOKED. GATT CONTRACTING PARTIES HAVE THE RIGHT TO WITHDRAW FROM THE GATT ON 60 DAYS NOTICE, BUT THE EFFECTS ARE SUFFICIENTLY UNKNOWN AS TO PRECLUDE RESORT TO THIS RIGHT. (IMF EMERGENCY PROVISIONS (ART XVI) ARE ALSO EXAMPLE OF A RELEASE FROM OBLIGATIONS THAT IN PRACTICE WOULD BE VERY COSTLY TO INVOKE).

(4) SINCE MTN PACKAGE IS MADE UP OF INSEPARABLE INTER-RELATED PARTS (TARIFFS, NTB'S, AGRICULTURE, SAFEGUARDS, ETC.), A CONDITIONALITY THAT WAS MORE THAN WHAT DENMAN CURRENTLY SEEKS, RESULTING IN SUSPENSION OF ALL MTN RESULTS FOR EXAMPLE, WOULD BE LOGICAL, ALTHOUGH SO COSTLY TO INVOKE THAT THE RISKS OF LOSS OF PART OF THE TARIFF REDUCTION WOULD BE MINIMIZED.

D. MINIMIZE EFFECTS FROM CONDITION BEING MET. (THIS CONFIDENTIAL

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ASSUMES LIKELIHOOD OF EC ATTEMPTING TO USE CONDITIONALITY TO LIMIT TARIFF REDUCTION TO 26 LEVEL):

(1) AS YOU SUGGESTED, INTERRUPTION OF STAGING WOULD RESULT ONLY IN POSTPONEMENT FOR LIMITED TIME, NOT ELIMINATION OF FURTHER CUTS.

(2) MAXIMIZE AMOUNT OF CUT ACHIEVED BEFORE TIME FOR INVOKING DECISION IS REACHED (E.G. TWO TRANCHE, 30/14 SPLIT, REALIZING THAT THE SMALLER THE SECOND TRANCHE IS, THE MORE ILLUSORY IT IS).

(3) ALLOW POSTPONEMENT OF CUTS BY PRODUCT SECTOR (MINIMIZE LOSS IN OVERALL DEPTH OF CUT AT EXPENSE OF A NEW, EASY ESCAPE CLAUSE THAT WOULD BE LIKELY TO BE INVOKED).

E. CRITERIA OF CONDITIONALITY:

(1) INSUFFICIENT GROWTH IN GNP. THIS CARRIES AN UN-ACCEPTABLE IMPLICATION THAT TARIFF CUTS LIMIT GROWTH IN GLOBAL GNP, RATHER THAN EXPAND IT. IF A PARTICULAR PERCENT GNP GROWTH TRIGGER IS USED, CONTROL IS LOST AND WE ALSO ENTER INTO AN UNDESIRABLE AND LENGTHY NEGOTIATION TO DEFINE WHAT HEALTHY GROWTH IS.

(2) "HIGH UNEMPLOYMENT" AS A CRITERION HAS SOME ECONOMIC LOGIC IN THAT INTERNAL REALLOCATIONS OF RESOURCES ARE HARDER TO MAKE DURING SUCH PERIODS. IT ALSO HAS A DEADLY AND WRONG POLITICAL CONNOTATION, HOWEVER, OF TRADE LIBERALIZATION CREATING UNEMPLOYMENT RATHER THAN REVERSE.

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(3) "MANIFEST CRISIS" (EUR. COAL AND STEEL COMMUNITY TREATY), "MAJOR ADVERSE ECONOMIC DEVELOPMENTS" (HINTON), OR OTHER GENERAL TERM AS TRIGGER. IF INVOCATION IS EITHER A MULTILATERAL DECISION, OR IF

A UNILATERAL RIGHT, THERE ARE ALSO RIGHTS FOR OTHER COUNTRIES TO WITHDRAW CONCESSIONS UNILATERALLY IN RESPONSE. THE LANGUAGE IS LESS IMPORTANT THAT THE DECISION-MAKING PROCESS. THE MORE IMPRECISE THE LANGUAGE IS (BUT SMACKING OF ARMAGEDDON), THE BETTER.

F. INVOCATION OF CONDITION.

(1) DENMAN'S DISCARDED IDEA OF CONVOKING A MINISTERIAL TO DECIDE TO HAVE SECOND TRANCHE TAKE EFFECT WOULD BE FINE IF ITS PURPOSE WERE REVERSED AND MEETING TOOK PLACE FOR A DECISION TO POSTPONE OR CANCEL STAGING.

(2) ABOVE ADVANTAGES COULD BE ACHIEVED BY MAJORITY VOTE OF FORMULA COUNTRIES NOTIFYING GATT DIRECTOR GENERAL WITHOUT THE NEED OF MEETING.

(3) RIGHT TO MAKE OFFSETTING WITHDRAWALS NOT (REPEAT NOT) LIMITED TO SIMILAR HALT IN TARIFF STAGING, WOULD ALSO HAVE AN INHIBITING EFFECT ON FIRST

INVOCATION OF CONDITION. "RETALIATION" SHOULD EXTEND TO NTB AREAS.

(4) SETTING A PARTICULAR TIME FOR REVIEW (E.G. 5 YEARS) HAS MORE NEGATIVES THAN POSITIVES, BUT IF APPROPRIATELY LIMITED, DEADLINE COULD PASS BY HARMLESSLY.

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CONCLUSIONS:

11. ON BASIS OF CONSIDERATIONS OUTLINED ABOVE, MTN DEL
WOULD:

A. DRAFT A NONSPECIFIC SENTENCE RECOGNIZING
PRINCIPLE OF CONDITIONALITY FOR INCLUSION IN
OCTOBER 10 TARIFF PLAN.

B. AFTER RECEIVING FURTHER WASHINGTON INPUT, NEGOTIATE DRAFT WITH COMMISSION. WE CAN AGREE TO PRINCIPLE OF CONDITIONALITY PROVIDED THAT IT IS KEPT NONSPECIFIC. THIS IS A QUID PRO QUO.

C. NOT INDICATE AT THIS TIME SPECIFIC U.S. PROPOSALS OR THOUGHTS ON CONDITIONALITY OR HOW IT MIGHT BE APPLIED TO AVOID BEING DRAWN INTO LENGTHY DEBATE NOW ON ECONOMIC TRIGGERS AND EFFECTS OF TARIFF CUTTING.

D. EXPRESS STRONG HOPE THAT 113 COMMITTEE NOT NAIL DENMAN DOWN ON SUBJECT SO COMPLEX AND DIFFICULT (LET THEM FIX BAND WITH THRESHHOLD IMPLICIT, BUT LEAVE CONDITIONALITY UNSPECIFIED) FOR MANY PARTICIPANTS TO AGREE ON, BUT THAT OCTOBER 7 MEETING GIVE DENMAN GENERAL GO AHEAD.

E. AGREE THAT NATURE (BUT NOT SPECIFICS) OF CONDITIONALITY CLAUSE COULD BE AGREED (AT EARLIEST) AT SAME TIME APPLICATION OF WORKING HYPOTHESIS BECOMES CLEAR VIS-A-VIS INDIVIDUAL FORMULA COUNTRIES (I.E., WHERE THEY FALL WITHIN BAND), PRIOR TO JANUARY 1, 1978.

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12. YOU MAY WISH TO EXPRESS TO DENMAN THAT THE LESS THIS TARIFF ISSUE IS PROBED NOW, THE BETTER. WE ALL DESIRE NOT TO EXACERBATE DOMESTIC POLITICAL PROBLEMS OF EC MEMBER STATES. PROTRACTED DEBATE ON CONDITIONALITY WOULD BECOME PUBLIC AND EITHER THREATEN THE MTN OR CAUSE ACUTE DISCOMFORT FOR SOME OF ITS PARTICIPANTS.

13. MOREOVER, THERE IS NO NEED FOR ANY PARTICIPANT TO KNOW MORE SPECIFICS OF CONDITIONALITY DURING PERIOD OCTOBER - DECEMBER 1977 FOR PURPOSES OF PLANNING.

14. FURTHER DISCUSSIONS WITH EC OF TWO TRANCHE APPROACH SHOULD BE AVOIDED. MINOR SECOND TRANCHE (E.G. 5)

UNLIKELY TO HELP SELL MEMBER STATES ON PACKAGE, AND AS SECOND (CONDITIONAL) TRANCHE IS ENLARGED, IT WHITTLES AWAY LIKELY RESULTS OF TOKYO ROUND AND, THEREFORE IS UNACCEPTABLE TO US.

15. RECOGNIZE THAT THERE IS SOME DANGER IN KEEPING THE SPECIFICS OF CONDITIONALITY OPEN. IN PARTICULAR THE EC MEMBER STATES COULD BEGIN TO DECIDE WHAT THEY WANT IN THIS REGARD AND SO LIMIT THE FLEXIBILITY THAT THE COMMISSION MAY NOW HAVE. ON BALANCE, HOWEVER, BELIEVE THE BETTER APPROACH IS TO KEEP THE SPECIFICS VAGUE AT LEAST UNTIL APPLICATION OF FORMULA VIS-A-VIS INDIVIDUAL COUNTRIES BECOMES CLEAR.

16. PLEASE CABLE YOUR VIEWS ASAP ON ABOVE, AS WELL AS BENEFITS OF CHANGING NUMBER 14 IN SWISS FORMULA RATHER THAN MAINTAINING BAND PLUS OR MINUS 5 AROUND 14. CHRISTOPHER

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Message Attributes

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